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Dear Jon

Response to Ofgem consultation: Getting more out of our electricity networks by reforming access and forward-looking charging arrangements

We provide this letter in response to Ofgem's consultation of the 23 July 2018, "*Getting more out of our electricity networks by reforming access and forward-looking charging arrangements*". BUUK owns and operates two IDNO licensee businesses (the Electricity Network Business (ENC) and Independent Power Networks Ltd (IPNL)). We participated in the task forces which Ofgem established in November 2017.

Our responses to the questions posed by Ofgem are provided in the Annex to this letter. Operating as an IDNO are responses focus on how changes to access and future charges may impact on IDNOs operating networks connected to the electricity IDNOs and are therefore focused at the distribution level.

In summary

Ofgem's proposals on reforming access rights and DUoS charging methodologies could have a significant distortional effect on the market in which IDNOs operate. Therefore, we are disappointed at the limited discussion on how proposals could or will impact on IDNOs, and to consumers connected to their networks. This creates uncertainty for the IDNO community. Currently there are probably in excess of c.500,000 consumers connected to IDNO networks. By the time the outputs from the access reform and changes to future charges are implemented there are likely to be close to c.1 million connections.

We recognise that work to date has focussed on overarching principles underpinning access rights and future charges. However, we are concerned that arrangements for IDNOs will be left to the last minute and 'shoe-horned' into arrangements as an afterthought. We think it is essential that consideration is given from the outset on how reforms proposed by Ofgem will impact on IDNOs and that such proposals are tested to ensure that they, and consumers connected to IDNO networks, are not unduly compromised through constrained access rights for IDNOs.

Access Arrangements

Access to capacity on the DNO network is critical for IDNOs. We note that Baringa (issue 6 in table 1 of their report) make their only reference to IDNOs, that is "*Access and charging arrangements for IDNOs may not be cost reflective.*" It is disappointing that Baringa have chosen (as far as we are aware) to not engage with IDNOs to get a better understanding of this point. IDNOs provide networks that the incumbent DNO would otherwise provide. Therefore, IDNOs seek the same access rights that a notional standalone business of the DNO would require if it were serving the same network. Where networks are building out capacity will not be fully utilised until the developments are complete. This is no different to where such developments connect directly to the DNO network. We are happy to discuss how equitable access arrangements could be developed.

Future Charges

Changes to DUoS charging methodologies need to ensure compliance with competition law. We have engaged with DNOs over many years to highlight issues and concerns we have with the DUoS charging methodologies. More recently (2016) IDNOs provided input into the DNO CDCM review. This specific review "withered on the vine" on the basis that it would feed into Ofgem's wider review. IDNOs have held back from raising change proposals under the DCUSA governance framework so as not to compromise or conflict with this review. However, this consultation provides little confidence that the concerns raised will be reviewed or addressed. Also, given our previous experience of the working with DNOs (through the DCMF, DCMF MIG and more latterly the DCMDG) on issues we have raised, we have little reason to have confidence that DNOs will take IDNO concerns forward through the CDB in an effective way.

We would be pleased to meet with you separately, or with other IDNOs, to set out our concerns in more detail and to explain our responses to Ofgem's questions and to clarify how IDNOs can determine the best way of proceeding.

Yours sincerely

Michael Harding
Regulation Director

Annex 1 Response to Consultation Questions

Question 1: Do you agree with the case for change as set out in chapter 2? Please give reasons for your response, and include evidence to support this where possible.

1. In answering the question, it is first important to clarify what we believe Ofgem's case for change is. In Chapter 2, Ofgem has set out its views on issues with the existing arrangements. Ofgem's case for change is on three core themes or trends. These are:
 - A. *Network constraints are becoming increasingly prevalent as the energy system transforms.*
 - B. *Energy system transformation will provide new sources of flexibility that can enable cheaper active management of network constraints rather than traditional reinforcement.*
 - C. *The growth in distributed energy resources (DER) is increasing interaction between transmission and distribution networks.*
2. Ofgem also sets out its aim for the review as ensuring:

"...the electricity networks can be used efficiently and flexibly, so that we can each have the access we need and benefit from new technologies and services, while avoiding unnecessary costs on energy bills in general".

Further, it is with these assumptions that Ofgem sets out its priorities as:
 - "1) Enabling growth in demand, particularly stemming from new low carbon technologies, while managing constraints on the networks*
 - 2) Managing constraints on the distribution networks as a result of growth in generation connecting there*
 - 3) An effective interface between transmission and distribution arrangements".*
3. We agree with Ofgem's case for change as set out in the context of the above themes. However, whilst we accept that growth in new low carbon technologies will be a key driver of network demand, we think there are also other drivers influencing the growth in network demand. The sustained increase in the requirement for and construction of new housing across GB is a significant driver of network demand constraints for some areas of DNOs' distribution systems. These constraints are happening irrespective of the move to low carbon technologies.
4. Although the overall GB demand profile may have reduced as a consequence of the de-industrialisation of the UK's energy intensive industries, connections for new housing will not take up the capacity they release in many circumstances. This is because much of the new housing is likely to be:
 - in different geographic locations to former energy intensive industries;
 - connected to the distribution system at different voltage levels; and
 - be dispersed over a much wider area (i.e. not a single point of demand).

Also, where such capacity has been released, it has probably been utilised already. Therefore, reinforcement is required to accommodate these new developments. We think that in many cases current demand constraints have been driven by the failure to reinforce the network in advance of need.

5. Licensees have a duty to operate efficient, coordinated and economical distribution systems, and that it is important that they ensure reinforcement is efficient. We recognise that it is not always easy to make reinforcement decisions in advance of need when there is uncertainty of the build out profile of new developments, or where there are multiple developers and stakeholders for a development area. Nonetheless, we believe there needs to be greater drive for proactive reinforcement and that this should form an essential component of Ofgem's current review, and should be integrated with work under RIIO-2. We believe effective reinforcement in advance of need will be more efficient than adopting a piece-meal approach and is consistent with Ofgem's previous work on faster and quicker connections.

Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.

6. We agree that access rights should be reviewed and that the aim for such a review should be to improve definition and choice. However, we are concerned that some of the discussions and proposals do not give proper consideration to:
 - The duties placed on electricity distributors (and the corresponding rights of customers) as set out under the provisions of the Electricity Act 1989 (the "Act").
 - How access rights will be managed for the duration of the build out of a connection for large developments, which may take more than 10 years to complete; and how access rights will be managed in respect of IDNO connections (and connections to private networks).

We set out our concerns in more detail below.

Provisions Under the Electricity Act 1989

7. Section 16 (1) places a duty on electricity distributor to make a connection *"...between a distribution system of his and any premises when required to do so..."*. Further, Section 16(2) goes on to say that the duty to make a connection includes a duty to *"...enable the connection to be used for the purpose it was intended..."*; and section 16(4) makes it clear that a reference to making a connection includes a reference to continuing to provide the connection.
8. Section 17 of the Act sets out circumstances under which an electricity distributor is excused from the duty imposed by section 16. These exceptions include where the distributor is prevented from doing so in order to comply with regulations around safety (the ESQCRs); and where *"...it is not reasonable in all the circumstances for him to be required to do so..."*. In imposing a "Use it or lose it" or similar regime Ofgem needs to provide clarity on the circumstances where withdrawing capacity is reasonable, and that it is consistent with the provisions of the Act.

9. Section 19 only permits a distributor to require expenses reasonably incurred in providing the connection to be defrayed by the person requiring the connection. The consultation (*Question 5*) considers using auctions for granting access, whereby a user pays for access rights based on the '*value*' they ascribe to the service rather than the cost or '*reasonable expense*' of providing it. If the auction charge or cost is substantially above the reasonable expense then we question whether an electricity distributor may be in breach of section 19.
10. Whilst persons who are successful in an auction bid could enter into a special agreement pursuant to section 22 of the Act, in which case provisions under section 16 to 21 would not apply; other persons unsuccessful in the auction process may claim that the process followed by the distributor was in breach of the provisions of the Act, and that its actions were unduly discriminatory.
11. Of course, Parliament could amend the Act and the duties placed on electricity distributors could change. However, this does not appear to be contemplated by this consultation. Unless and until the Act changes, any actions to claw back capacity without the 'voluntary' agreement of the consumer (or other electricity distributor where the connection is to another network) must comply with the provisions of sections 16 to 23 of the Act.
12. Sections 16 to 23 of the Act do not apply to transmission. Therefore, the legal framework could lead to different solutions for transmission than for distribution.

Access rights for new developments IDNOs (and private networks).

13. We are concerned that the consultation makes very limited reference to:
 - Access rights for new developments.
 - Access rights to IDNOs (and to private networks).

We think this is an important area that needs to be included in the review

14. For new housing developments DNOs determine the access requirements by using an After Diversity Maximum Demand (ADMD) calculation, this practice has stood the test of time as a sensible effective approach for assessing the diversified capacity required at the point a new development connects to the existing distribution system. However, historic information used to make such assessments will no longer be fit for purpose in assessing the capacity for the future. We urge that a collaborative approach be implemented as soon as reasonably practical to determine best practice for determining capacity requirements for future new developments. This approach will help to assure a consistent approach and we believe, assist distributors in processing competing applications for connection for a given development.
15. For non-domestic premises, reliance is placed solely on the developer or his agents to determine the maximum capacity required for the development. This often leads to the capacity for the development being significantly overstated. This may be because the end consumer is not known at the time the request is made, or the process used to assess the required capacity (usually on a watts per metre squared of floorspace) may not be fit for purpose. We think the review should consider whether better tools or processes can be developed to assist developers in determining load requirements. This could be

in the form of providing a publicly available guide to assist developers to make a realistic appraisal of their requirements.

Developers need certainty that capacity will be available for the build out of their development

16. Developers need certainty that required capacity for their development will be available during (and beyond) the build out phase – even though such capacity may not be utilised in early years. This is true for developments comprising domestic housing and for developments comprising of commercial premises. The same is true for IDNOs and for networks that operate without a licence. We are seeing behaviours from some DNOs where they are endeavouring to restrict capacity for a finite period (less than the reasonable expected build out phase for the development). We think such behaviours are unreasonable and outside the provisions of the Act.
17. Whilst we recognise that time lines to build out developments may change (for, example because of changes to the economy), we do not think this on its own makes a development speculative, nor does it justify withdrawing capacity. We agree that for larger developments, capacity could be made available on a phased basis commensurate with the build out programme for the development and that such phasing should be subject to periodic review and proactively managed. As part of reform of access rights there is a need to include the processes used to assess, allocate and clawback capacity for new developments.
18. Notwithstanding the above, we agree that that there shouldn't be an automatic evergreen access right to capacity, particularly where it is not used, or where there is no demonstrable future requirement for it. As set out in paragraph 7 above, The Act only places an obligation on the distributor to provide the connection for the "*...purpose it was intended*". In such instances it may be reasonable for DNOs to "*claw back*" capacity (described as "*use it or lose it*" in the consultation) so that it can be utilised for other consumers. Such claw back is only likely to be actively enforced on areas of the distribution system where there are capacity constraints. Consideration needs to be required on whether such discrimination is reasonable. Arrangement for the clawback of access rights need to be transparent and fair, with consumers having a right to appeal such decisions.
19. Additionally, if an electricity distributor claws back access rights then consideration must be given to what rebates are due in respect of assets funded by the 'first comer'. Whilst *The Electricity (Connection Charges) Regulations 2017* may cover such arrangements, any review needs to sense check that all the costs originally paid for by the party for which the capacity was originally provided are covered.

Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:

- a) **Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold –**

do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?

- b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?**
- c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?**
- d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?**

Establishing a clear access limit for small users

- 20. For housing developments, it is the DNO who determines the maximum capacity for the whole development using an ADMD formula. Whilst the process may not be consistent with the provisions of the Act (section 16A requires the person requiring the connection to set out the maximum power requirement), it has stood the test of time as a sensible effective approach for assessing the diversified capacity required at the point a new development connects to the existing distribution system.
- 21. We agree with the principle of establishing an access limit for small users. Given the way that the maximum capacity for homes has been assessed in the past, it is difficult to see how the access limit can be assessed on any other basis than the rating of the fuse. We believe this used to be the practice prior to the unbundling of supply and distribution where tariff leaflets used set out that domestic tariffs were only available to supplies with a capacity of c.20kVA - 23kVA.
- 22. For gas heated homes, the typical load factor is less than 5%¹. The effect of the transition to low carbon technologies (and the management of when load connects) is likely to lead to higher load factors, as a consequence, increase the diversified peak demand at the common connection for developments (e.g. at a substation or at the point where a development connects to off-site mains), thereby significantly impacting on the peak demand at common connection points and substations. We are not sure how specifying the a maximum capacity will address this unless it is proposed to reduce the capacity below the fuse rating.
- 23. We agree with Ofgem's desire to protect access rights in respect of '*essential services*'. However, we are not sure how access rights provided for '*essential services*' can be segregated from access rights that are for "*non-essential*" services. For example, one customer may employ a range of mechanisms to reduce their '*essential service*' access requirement (e.g. solar panels, battery storage, other energy sources, high levels of insulation), but who may have a '*non-essential*' electric vehicle. Another customer may not be able to afford alternative mechanisms to manage their access rights for essential services. The total access requirements of each consumer may be very similar. How do you differentiate between the two?

^{e1} A premises with an annual consumption of 3300kWh and a peak demand will have a load factor of C.1.9%; even with a peak demand of 10kW the load factor is only 3.8%

24. One option may be to place a requirement for circuits for non-essential services to be segregated and separately metered from circuits providing essential services. Bespoke tariffs could apply to the different type of service. Such practice would not be new. In the past similar arrangements were put in place to facilitate off peak heating with load supplied through a 'white' meter and separate supply circuits. This allowed connected load to be switched by the meter (either through a time clock or tele-switch). Whilst smart meters offer the potential to facilitate smart solutions to manage load, we think additional equipment would be required to segregate access rights (and charges) for essential and non-essential services. Also, as is the case with any behind the meter solutions there would be significant opportunity for users to abuse such segregation.

Firm/non-firm and time-profiled access

25. Broadly, we agree with the intent underpinning proposals outlined in paragraphs 3.15-3.21 and that these options should be developed. We agree that there is scope for developing arrangements to better facilitate connections where providing firm access is either not available, or where the costs are prohibitively high (however, a move to shallow connection boundary could in large part address this latter point).
26. Whilst we think such arrangement may be suited to facilitating DG or connections to larger demand users, we do not support the move of such arrangements more widely. We are concerned that end consumers in general (particularly for smaller connections) will not be able to make informed decisions on the level of security they require. We agree that charges need to be reviewed to recognise the different levels of security provided.
27. We agree proposals to develop time profiled access; however, we are concerned that cost effective pricing may give weak signals as to when to use load.

Depth /Local Access

28. We agree with Ofgem's assessment that developing local access could be complex and difficult to administer. It is not wholly clear to us how consumers' access rights would be managed if, for example, a local generator went off line. It is also unclear what service the upstream network operator would still provide under such local access arrangements; e.g. voltage and frequency stability, reactive power management.
29. Where a person elects to rely on local access, and thereby avoid upstream deep charges, then it must be an explicitly stated risk that the upstream system may not be able to standby to provide support if and when local arrangements fail. Under such circumstances it may be necessary to de-energise customers from the network or for such customers to restrict demand. Consideration needs to be given as to how this would be managed in practice.
30. We think such arrangements would require appropriate systems, processes and contractual arrangements between a number of stakeholders. We think such arrangements probably require someone to act in the role of an aggregator to balance the local system (DNO? DSO? Or some other party?). The aggregator could then

manage the balancing arrangements with distributors, suppliers, generators and consumers.

Transmission or distribution

31. Whilst we are principally concerned with the review of distribution arrangements, we think it is important that transmission and distribution are reviewed together in a coordinate manner. To do otherwise could lead to perverse outcomes which could distort operation of the GB electricity and distribution system.

Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.

Firmness

32. We agree with the principle that users with less than firm rights should generally face lower charges. Such charges should reflect costs avoided by accepting a lower level of security. We also think there are some customers with critical electricity requirements who may want a higher level of security than that offered by firm arrangements (as described by ENA engineering recommendations). We think charges for the provision of higher levels of security should also be considered as part of this review. We think one way of recognising lower or higher levels of security is through connection charges. However, we recognise that this is inconsistent with moving to a shallow connection boundary.
33. However, we think reflecting such arrangements through use of system charging could be complex if it was applied more widely than the largest customers or DG. For smaller customers levels of firmness are likely to change. This could be because:
- another user disconnects from the system or changes their use making sufficient capacity to be available for the connection to be firm.
 - General reinforcement, or specific reinforcement for a 'second comer' customer may make the connection firm.
34. Under such circumstances the DUoS charges to a customer would (should) increase if the firmness was improved as other consequential works on the system. To not do so would be unduly discriminatory to other users of the same system. This would even be the case for the largest consumers. The level of firmness could increase because of works to reinforce shared assets used by other consumers.

Time profiled

35. We agree with that charges should reflect the costs of obtaining access at different times and that charges should move more to a capacity-based charging approach. We believe this is a fairer way of reflecting the costs of providing capacity. However, we are not convinced on the extent that such arrangements will give pricing signals that influence consumer behaviour

Duration

36. We are uncertain on how charging arrangements would work in respect of short term access rights with a limit of say 15 years. To take such arrangements into account would require bringing the perceived cost benefits that would be realised in 15 years' time forward to today. There is a high risk that such perceived benefits will not materialise, particularly with the current prospects of the changing energy landscape.
37. Notwithstanding the above, there may be opportunities where the connection will not be required beyond the useful asset life; for example:
- Where sole use assets will not need to be replaced and therefore charges could be adjusted to remove the cost of replacement.
 - However, where reinforcement is provided under a shallow connection charging methodology, higher charges may need to be applied to reflect that notional allocation of reinforcement costs will not be recovered over the regulatory asset life (40 years).
38. We also think there may be circumstances where a user may have a requirement for short term one off access arrangements on an infrequent short term basis; for example the testing of piece of equipment, a fire pump, where alternative access charging arrangements may be possible.

Depth/ Access

39. See our response to question 3. Whilst we see this as being theoretically possible, we believe implementation of such arrangements will be complex. We have difficulty in seeing how these arrangements would work in practice in a way that would be fair to all consumers.

Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:

- a) **Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?**
 - b) **Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?**
 - c) **To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?**
40. We agree that effective queue management is desirable. However, such queue management must be fair to all users. Please see our response to question 2 which covers this aspect in part.
41. We do not support targeted auctions for the monopoly activity which suggest the "rich" should be able to buy their way up a queue at the expense of the "poor". Such an approach appears to be intrinsically unfair and inconsistent with provisions of the Act.

We do not agree with Ofgem's assertion that auctions provide a better signal to network operators about the need for network capacity. The fact that there is a queue for the capacity should provide a signal for additional network capacity on its own.

42. We do not support universal auctions see our response above.

Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.

43. We agree that a comprehensive review of DUoS charging methodologies should be undertaken. This is long overdue. We have been raising concerns with aspects of how the CDCM as inputs to the DNO CDCM review initiated in 2016(?). We note that the licence requires DNOs to undertake a review at least annually. We contend that such review has not been carried out since the CDCM was introduced in 2010. Whilst the DCMDG (and previously the DCMF and DCMF MIG) has facilitated talking shops it has (for whatever reason) delivered very little in respect of a review with tangible outcomes.
44. We believe the CDCM is flawed in a number of areas. Ofgem's consultation, in part at least, looks at how access and charges can influence behaviours and mitigate the need for reinforcement. The current CDCM does not model the costs of reinforcement or asset replacement. Instead, outputs are modelled on a hypothetical 500MW increment to the distribution system – in practice something that electricity distributors have never done, nor will ever do. The reality is the electricity distribution networks are developed much more on a piece meal basis through reinforcement, asset replacement and local network extensions.
45. We believe there are a number of issues with the current approach in the CDCM; these include:
- a) The hypothetical 500 MW model distorts the actual capex spend in total and by network tier. In contrast, the CDCM does not model all non-capex costs. Therefore, the split between Capex and non-capex expenditure is unduly distorted (even for a LRAIC approach).
 - b) The CDCM allocates costs (both opex and capex) to network tiers and thereby to customer types using the Modern Equivalent Asset Value (MEAV) derived from the hypothetical 500MW model. The model (and the associated service model) excludes a significant component of the costs of excavation and reinstatement at LV. Although the allocation of any capex to the LV network tier is largely netted off against customer contributions), it distorts the allocation of future opex costs (to the extent they are modelled) to higher network tiers.
 - c) The CDCM does not model reinforcement or asset replacement. These are a significant component of the capital costs incurred by an electricity distributor in providing the distribution system. Both asset replacement and reinforcement have a different cost profile than costs modelled by the hypothetical 500MW model:

- Both asset replacement and reinforcement are likely to incur higher excavation and reinstatement costs than those in the 500 MW model since they are unlikely to be in unmade ground.
- Asset replacement does not attract customer contributions

Similar to (b) above, we think the current CDCM treatment of reinforcement and asset replacement unduly skews the allocation of costs to higher network tiers.

- d) The treatment of reinforcement under RIIIO-1 exacerbates the issue identified above. Under RIIIO 1 reinforcement for small (NHH traded) customers is socialised and recovered through DUoS, whereas reinforcement for larger customers (HH traded) is funded in part through customer contributions. This means that for example, a customer connecting at HV will fully fund reinforcement it requires through a connection charge, and also fund in part through its DUoS charge, reinforcement for LV customers.
 - e) We believe that a significant element of opex and non-network capex costs are driven by customer numbers and not by the network value. Allocating such costs using an artificial MEAV, and then recovering through a kWh or capacity charge unduly skews the costs to larger customers.
46. Such review needs to carefully consider the charging arrangements to IDNOs to ensure that margins available to IDNOs are fair and compliant with competition law; i.e. they do not and do not lead to margin squeeze.
 47. IDNO tariffs are determined by applying a percentage discount to the all the way tariff applied by a DNO to an equivalent customer. The IDNO margin is therefore the difference between a DNO's all the way tariff and its tariff to the IDNO. The percentage discount is calculated by the PCDM. This allocates the DNO's total cost of operating its distribution system to network tiers, the aim being that the discount should reflect the notional revenue that the DNOs own notional business would earn in operating the business.
 48. In moving to a world of different access rights, where different services can be provided or procured to either support, or dispense with reliance on, the upstream network, it is important to consider to what extent the current IDNO arrangements are fit for purpose. At the very least we believe a review of the input costs and the MEAV mechanism for allocating them needs to be reviewed. Also, we believe the allocation of incentive costs needs to be considered
 49. We believe that there is significant case to review the balance between usage-based charges and capacity-based charges.

Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.

50. We agree that the connection boundary should be reviewed. However, if locational signals are important we think they are most effective if given at the time the customer

and electricity distributor make the investment. Such signals are stronger through a deep connection charge than through a shallow connection charge. Once the investment is sunk any future locational signals are likely to have a significantly diminished impact (particularly if such future costs are not known at the time the investment is made).

51. For most demand customers, we think locational pricing will have little effect on where they locate. This is particularly so for smaller customers. For example, domestic customers will locate where their work or families are, and small business will locate where the work is. House prices are largely influenced by market conditions – the price a developer pays for land is more likely to be influenced through the cost of servicing the site. Even so, the cost of providing utilities are likely to have a weak effect on location except in extreme cases.
52. For large customers connecting at EHV the current locational signal is volatile and unpredictable. A customer locating in one area may initially receive low EHV charges (although for many EHV customers their tariff is not known when they make the investment decision), only to find such charges increase significantly when other future customers connect. Such uncertain pricing signals are unlikely to provide a realist locational signal. Therefore, we question the value of giving a pricing signal through locational tariffs to demand customers.
53. For generation customers, where energy is the sole reason of their business, then locational tariffs may have an impact because a generator may be better able to decide where to locate (although certain types of generation are restricted from where they can locate). However, generators will need certainty that the basis for making the investment is stable throughout the investment life. Producing locational tariffs which vary over time based on the local dynamics of the distribution system do not provide efficient investment certainty.
54. Notwithstanding our comments above, we do agree that there is a case for moving to a shallow connection charging boundary. This is because the transition to low carbon technologies is likely to have broad societal impacts. It would appear to us that it would be unfair for a 'last comer' to have to fund reinforcement that may bring wider societal benefits for future customers, and which has been brought about in part, by increases in demand from other customers have secured additional access rights at no additional connection cost. Also, we believe that as part of RIIIO 2 incentives and mechanisms are required to allow efficient investment to be made in advance of need. We believe such an approach would be consistent with Ofgem's previous work on seeking quicker and faster connections.

Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas please also provide these:

- a) **Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?**

- b) Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27?**

Please provide reasons for your response and, where possible, evidence to support your position.

Not answered

Question 9: Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.

Not answered

Question 10: Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?

Not answered

Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.

55. We have witnessed major projects such as the initial development of the CDCM and EDCM, the delivery of project Nexus (in gas), and the current faster switching programme. Our experience is that industry led approaches do not work well. (Even the DNO led CDCM review and EDCM reviews lacked pace, focus and delivered little). Therefore, we are strongly of the view that Ofgem should lead the review. We are also of the view that Ofgem is the best proxy for an impartial arbiter on driving the work forward. DNOs and ESOs have a vested interest and (rightly or wrongly) will be perceived as skewing outcomes in their favour. Additionally, we believe DNOs and ESOs will have different positions with no-one having the vires to direct decisions for all.
56. Whilst we believe Option A has some merits, given our recent experiences with some DNOs we do not view DNOs as being impartial arbiters to review the allocation of access rights. Therefore, we have to conclude that Option C, a comprehensive review, as our preferred approach.

Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.

57. In principle we agree with the Option 1 approach. However, the current mechanism for raising and managing changes is through the governance framework under DCUSA. We are concerned that this may not be fit for the nature of change proposed. Under current arrangements a change decision can only be accepted or rejected in its entirety. We also believe there will be a need for a greater dynamic input in respect of the development of models and legal text. To achieve this effective central project

management support is essential. We are not sure to what extent this can be provided within DCUSA. We are not sure how a separate delivery work group outside of DCUSA would work in practice.

58. Additionally, we think there may be merit in establishing a mechanism where Ofgem can give conditional or partial approval to a change proposal (i.e. direct further changes). Currently DCUSA limits changes to the specific intent of the proposer; then following work group assessment, for changes to be accepted or rejected following a vote by parties with a recommendation by DCUSA to Ofgem. We think having a mechanism where Ofgem can partially accept elements of a change or direct certain aspects may add to efficiency of administering the process.

Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.

59. We agree that a licence condition is required to provide the appropriate focus on those areas out of scope of the SCR, but which are an important part in meeting the overall aims set out by Ofgem. We have previously commented (see our response to Question 2) that arrangements to manage access must be consistent with duties imposed by the Act. We think it is important that the drafting of any licence condition does not conflict such provisions.
60. The drafting of paragraph 4 in table 7 suggests that the decision on what is required has already been made. We would hope that the drafting will be subject to proper consideration of responses to this consultation. For example, whilst we support the intent to introduce mechanisms that will manage the clawback of capacity, we are concerned about how it will be managed in practice and whether the management of such arrangements will be on a fair and equitable basis.

Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.

61. We think it is premature to comment on the scope of the Relevant Requirements until the outcomes and decisions from this consultation have been agreed. However, in respect of Paragraph 1.8 we believe it needs to be strengthened to make it clear that the licensee must consider/ address in a transparent and fair manner representations or concerns raised by wider stakeholders; e.g:

"(ii) develop its assessment and proposals in consultation with any other persons whose interest are materially affected by the Relevant Arrangements in a manner that fairly considers and addresses in transparent manner the representations and concerns raised by wider stakeholders"

Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?

62. The timelines are challenging, but rightly so. We believe it will be essential to establish a central dedicated resource for programme/ project managing delivery. This relates to work both within the SCR and work covered by the licence condition in Appendix 5. We think it will be an essential at the earliest opportunity to set out a project plan with clear milestones.
63. We believe that some preparatory work could be initiated before Ofgem publishes the conclusions of this consultation.

Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?

64. We believe that the CFF has shown benefits in reaching a wider range of stakeholders during its short life. We have concerns with how the CDB will operate and interface with the DCUSA governance arrangements. We are also concerned, about how the CDB will interface with wider stakeholders given that (leaving Ofgem aside as the chair), it solely comprises of distributor and ESO licensees.
65. We believe the terms of reference for the CDB may need reviewing. It is not absolutely clear that the terms of reference fully align with the delivery approach set out in the draft licence condition in Appendix 5 of the consultation.
66. Currently, the CDB's ToR (as the group's title suggests) focusses on the delivery and implementation of (agreed?) changes. It appears to be light on the requirement to engage with wider stakeholders. Whilst there is a requirement to engage with the CFF, this only meets quarterly. We believe the pace of engagement required to meet the timelines will require a frequency greater than quarterly, particularly if wider stakeholders are to be engaged.